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# Policy Strategy

November 2014

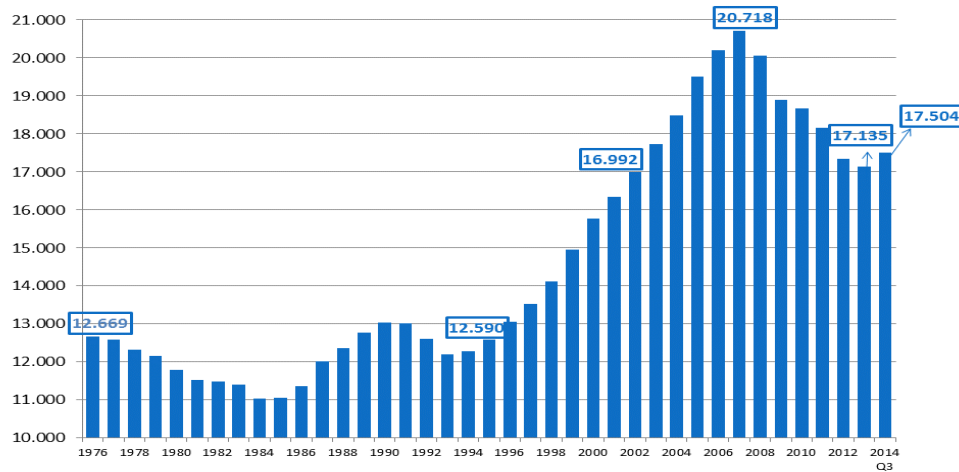


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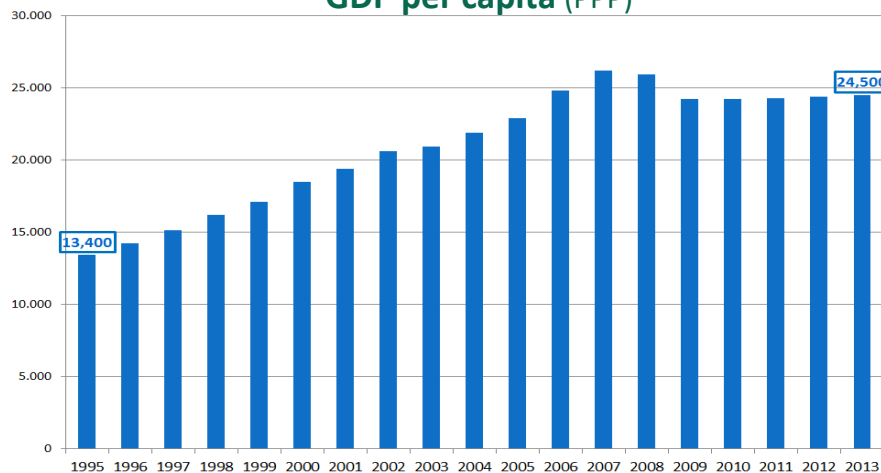
# Structural features of the Spanish economy

### Employment (millions, Q4)



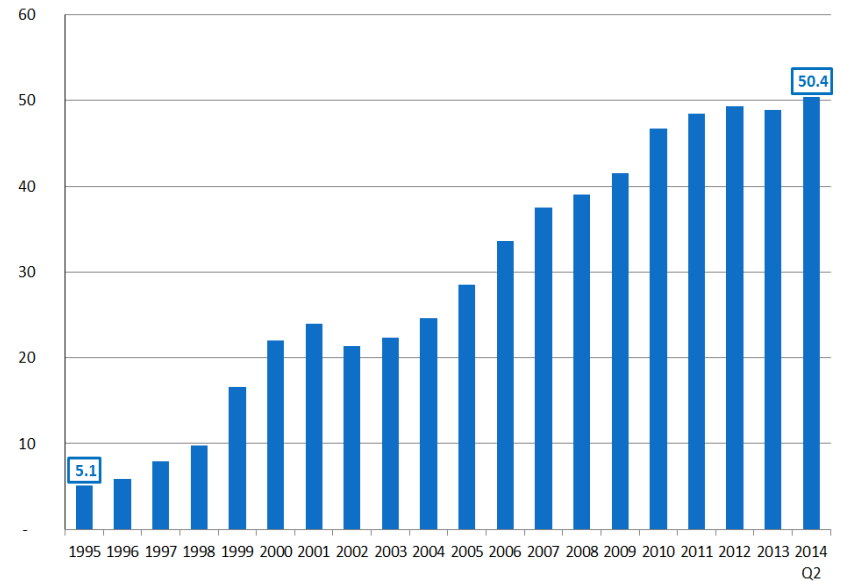
Source: INE, LFS

### GDP per capita (PPP)



Source: Eurostat

### Direct investment position abroad (as % GDP)



Source: Banco de España ( IMF 5th Manual; 6th Manual 2012 -2014)



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## Spain Macroeconomic Scenario

<i>Year on year % change (ESA 2010)</i>	2012	2013	2014F	2015F
Real GDP	-2.1	-1.2	1.3	2.0
Nominal GDP	-1.9	-0.6	1.4	2.7
Private Consumption	-2.9	-2.3	2.0	2.1
Public Consumption	-3.7	-2.9	0.2	-1.0
Gross Capital Formation	-8.3	-3.7	1.5	4.4
Domestic Demand(*)	-4.3	-2.7	1.4	1.8
Exports of goods and services	1.2	4.3	3.6	5.2
Imports of goods and services	-6.3	-0.5	4.4	5.0
External Demand(*)	2.2	1.4	-0.1	0.2
Employment (**)	-4.4	-3.3	0.7	1.4
Employees <i>affiliated to the Social Security</i>	-3.4	-3.3	1.4 Jan-Oct	
Unemployment rate	24.8	26.1	24.7	22.9
Net lending (+)/ borrowing (-) with the RoW(***)	0.1	2.1	1.5	1.7

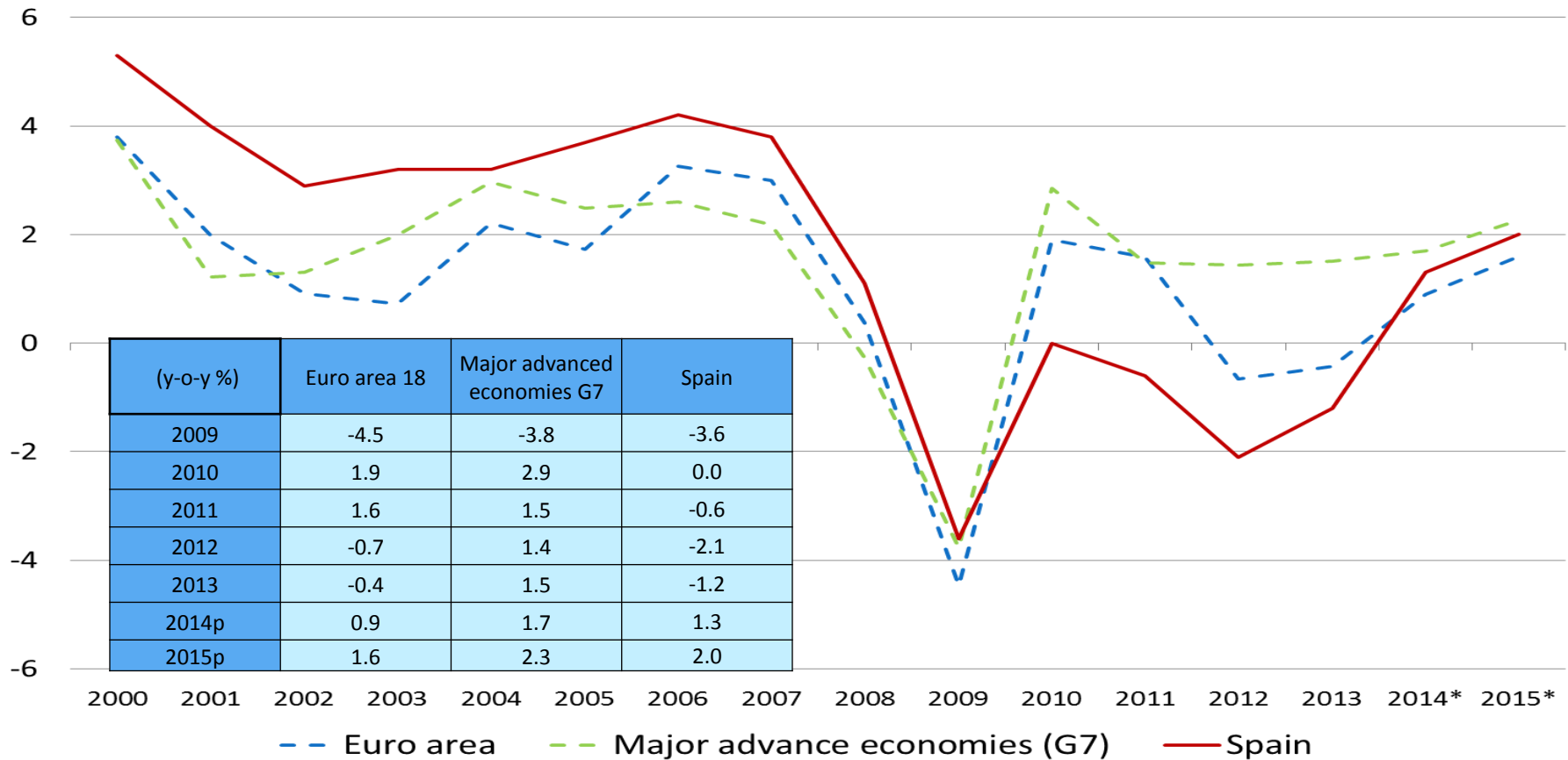
GDP	2014	2015
National Consensus	1.3	2.0

(\*) Contribution to GDP growth; (\*\*) full-time equivalent; (\*\*\*) % of GDP.



# Economic Growth Differential

### Real GDP (y-o-y %)

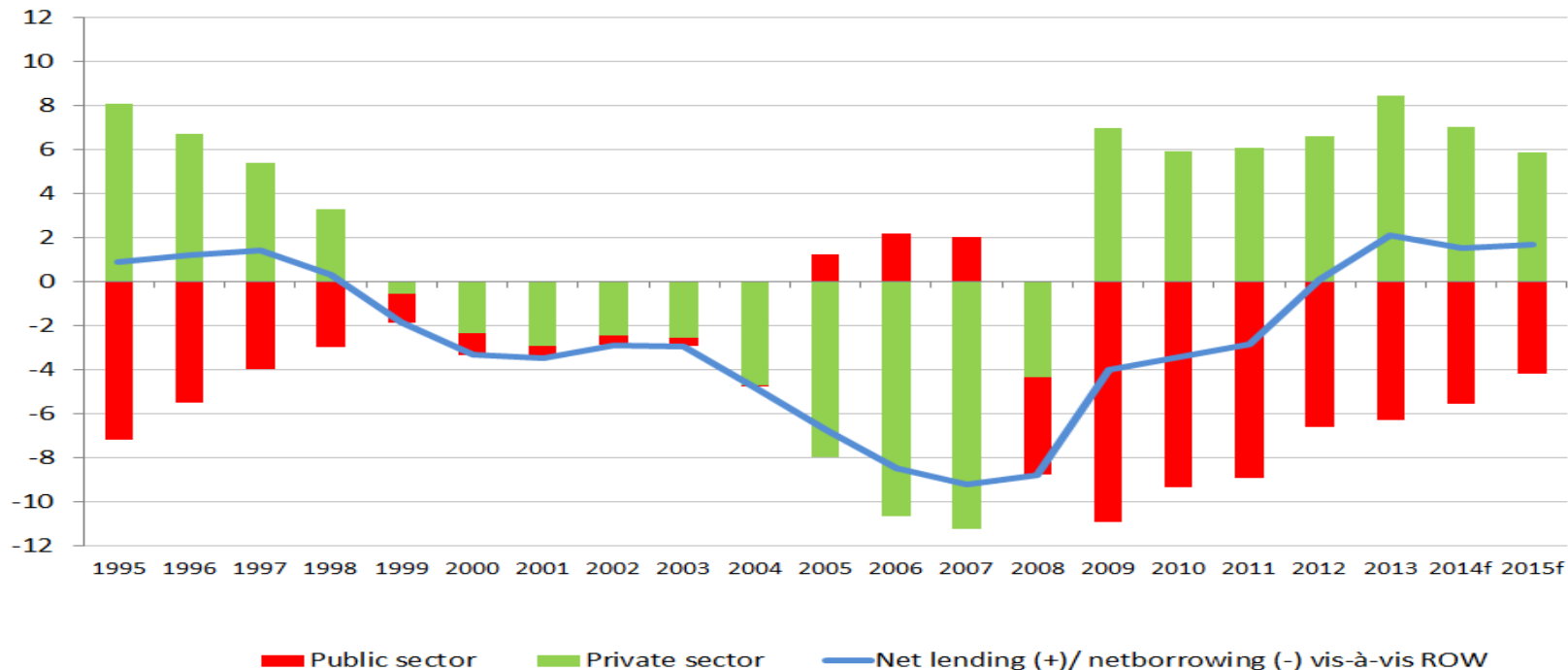


Source: INE, IMF, Eurostat, 2015 Budget.



# Financing capacity

Net lending (+) or net borrowing (-) by institutional sector  
(% GDP)



Not including one-off financial assistance.  
Source: INE and IGAE

(as % of GDP)	2010	2011	2012	2013	2014F	2015F
Net lending (+)/ borrowing (-) vis-à-vis RoW(*)	-3.4	-2.9	0.1	2.1	1.5	1.7

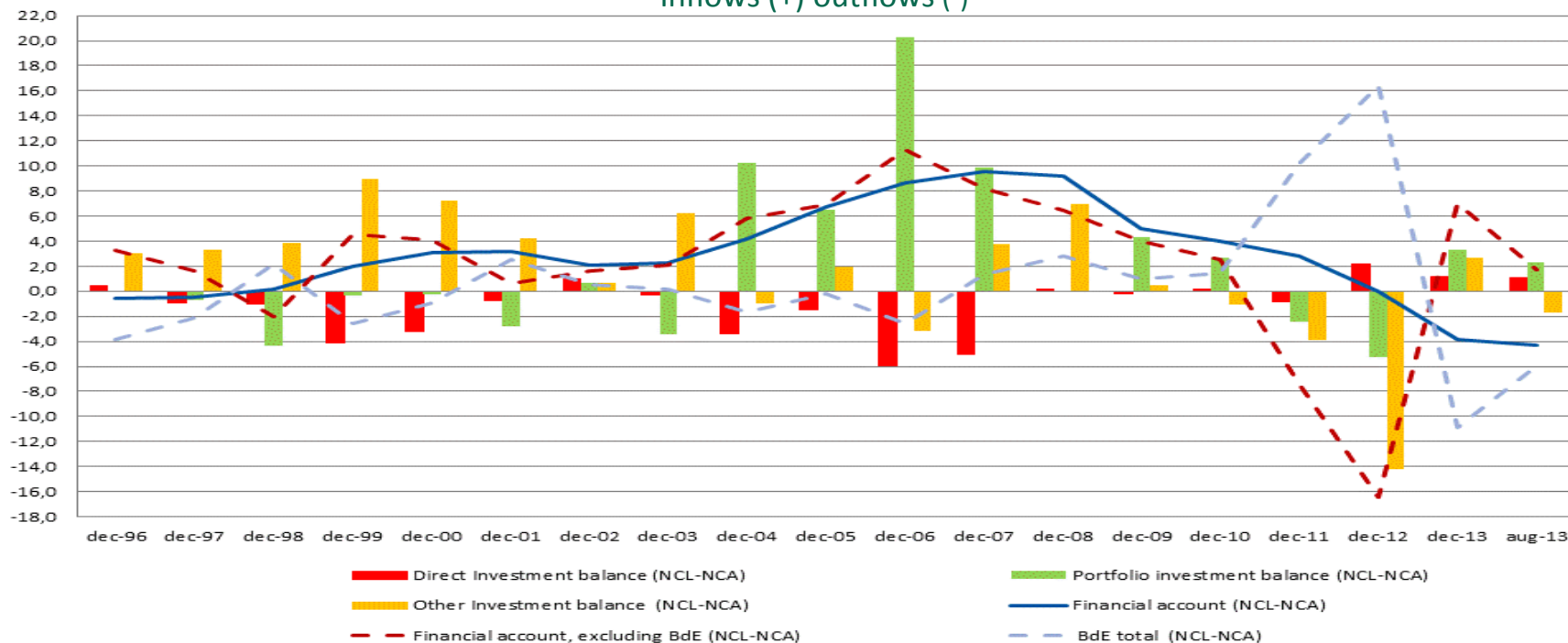
(\*) ESA 2010



## Financial account 1996-2014

Monthly data, annualized (as % of last fourth quarters GDP)

Inflows (+) outflows (-)



Source: From dec-2010 BPM6, previous data BPM5

(as % of GDP)	2011	2012	2013	Aug 2014*
Direct investment balance (NCL-NCA)	-0.9	2.2	1.1	1.1
Portfolio investment balance (NCL-NCA)	-2.4	-5.3	3.3	2.3

\*August, annualized



## Budgetary outcomes and Targets

### Net lending (+)/borrowing (-) General Government (as % of GDP)

	ESA 2010			Targets				
	2011(D)	2012 (D)	2013 (P)	2013	2014	2015	2016	2017
Central Government	-5.10	-4.12	-4.22	-3.8	-3.5	-2.9	-2.2	-1.1
Regional Governments	-3.34	-1.84	-1.52	-1.3	-1.0	-0.7	-0.3	0.0
Local Entities	-0.40	0.31	0.52	0.0	0.0	0.0	0.0	0.0
Social Security	-0.10	-0.96	-1.11	-1.4	-1.0	-0.6	-0.3	0.0
General Government	-8.94	-6.62	-6.33	-6.5	-5.5	-4.2	-2.8	-1.1

Not including one-off to the financial sector.

Excluding 2009 regional financing system settlements in favor of the Central Government (2011)



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## Regional Governments Budget Balance

### Net lending/borrowing (% of regional GDP)

	2011	2012	2013	Target 2013
Andalucía	-3.35	-2.07	-1.52	-1.58
Aragón	-2.63	-1.63	-2.17	-1.30
Asturias	-3.54	-0.98	-1.02	-1.06
Baleares	-4.26	-1.94	-1.21	-1.47
Canarias	-1.51	-1.10	-1.00	-1.20
Cantabria	-3.60	-1.80	-1.19	-1.13
Castilla-La Mancha	-7.77	-1.33	-2.09	-1.30
Castilla y León	-2.65	-1.43	-1.15	-1.27
Cataluña	-4.12	-2.25	-1.95	-1.58
Extremadura	-4.64	-1.05	-0.88	-1.00
Galicia	-2.15	-1.28	-1.11	-1.20
Comunidad de Madrid	-1.87	-1.05	-0.98	-1.07
Región de Murcia*	-4.59	-3.17	-3.15	-1.59
Comunidad Foral de Navarra	-3.04	-1.71	-1.43	-1.20
La Rioja	-1.41	-1.11	-1.02	-1.06
Comunidad Valenciana	-4.88	-3.71	-2.15	-1.60
País Vasco	-2.65	-1.43	-1.15	-1.20
<b>Total Regional Governments</b>	<b>-3.34</b>	<b>-1.84</b>	<b>-1.52</b>	<b>-1.30</b>

\*Murcia shall deduct for the stability target, extraordinary expenditure due to the earthquake in Lorca amounting to 21M€, 18M€ and 26M€ respectively in 2011, 2012 and 2013, so the resulting deficits will be -4.51%, -3.10% and -3.05% respectively in 2011, 2012 and 2013

Source: IGAE, Ministry of Finance and Public Administration





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## Government balance 2013

### Net lending (+)/borrowing (-) General Government (as % of GDP)

	ESA 95		ESA 2010		2013 revision	
	2012 (D)	2013 (A)	2012 (D)	2013 (P)	"GDP" Effect	"Numerator" Effect
Central Government	-4.21	-4.33	-4.12	-4.22	0.11	0.00
Regional Governments	-1.86	-1.54	-1.84	-1.52	0.04	-0.01
Local Entities	0.22	0.41	0.31	0.52	-0.01	0.12
Social Security	-0.99	-1.16	-0.96	-1.11	0.03	0.02
General Government	-6.84	-6.62	-6.62	-6.33	0.16	0.13

Not including one-offs to the financial sector: 2012 3.80 pp ESA 95 and 3.70 pp ESA 2010. 0,47pp 2013 (A) and 2013 (P).



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## Fiscal balances and Public Debt 2011-2017

% GDP	General Government Balance	General Government Primary Balance	Structural Primary Balance	Public Gross Debt
2011	-8.9	-6.5	-2.7	69.2
2012	-6.6	-3.7	0.3	84.4
2013	-6.3	-3.1	2.2	92.1
2014	-5.5	-2.2	2.7	97.6
2015	-4.2	-0.8	2.9	100.3
2016	-2.8	0.6	2.8	100.2
2017	-1.1	2.3	3.0	97.9

Source: MINHAP Not including financial assistance one-offs.

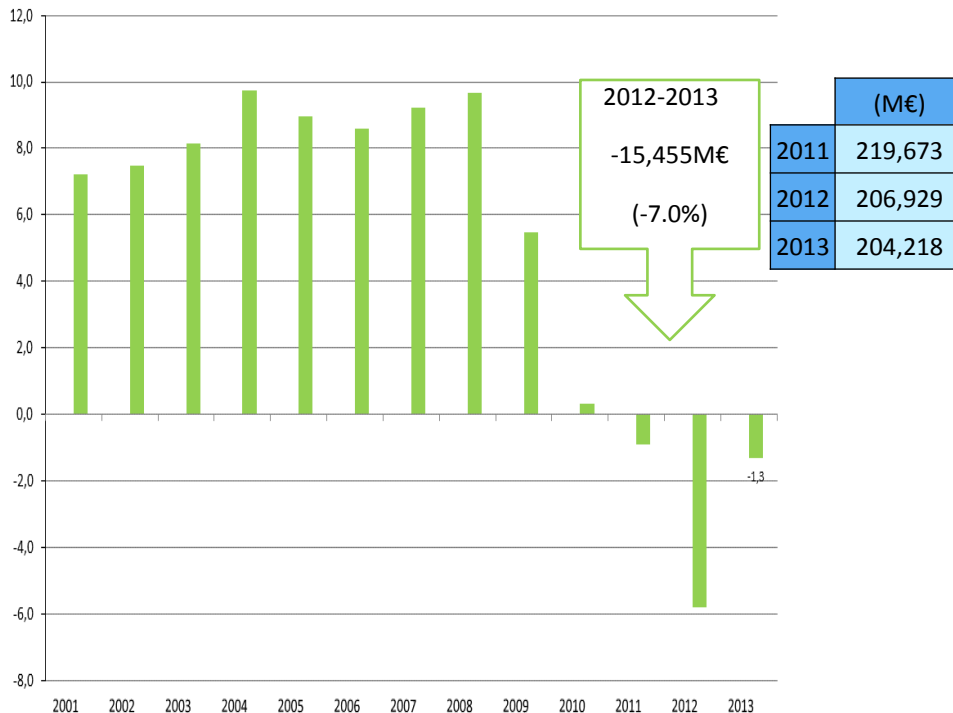


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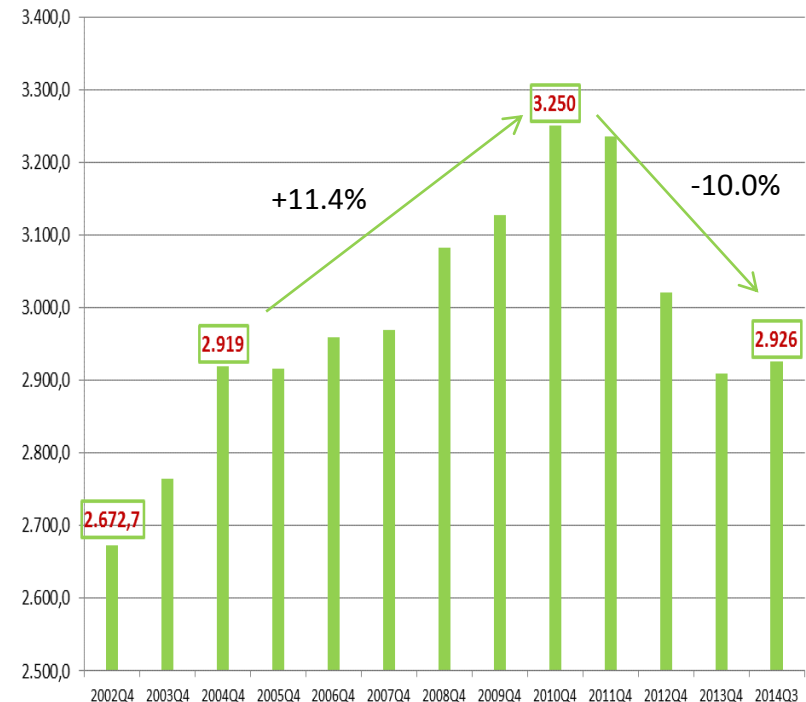
# Fiscal Consolidation: public consumption and public employment

Public consumption (y-o-y %)



Source: INE, NA ESA 2010

Public sector employees (million €)



Source: INE, LFS Q3 2014

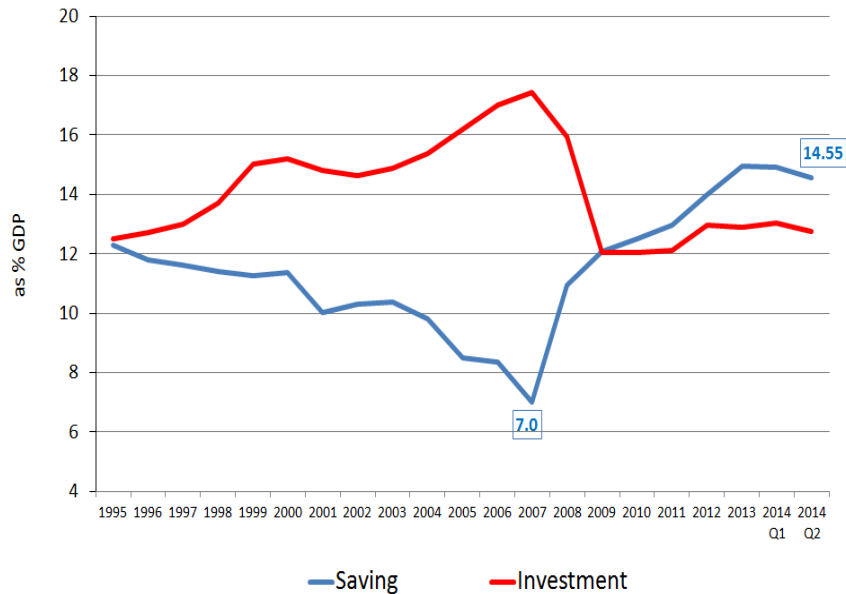


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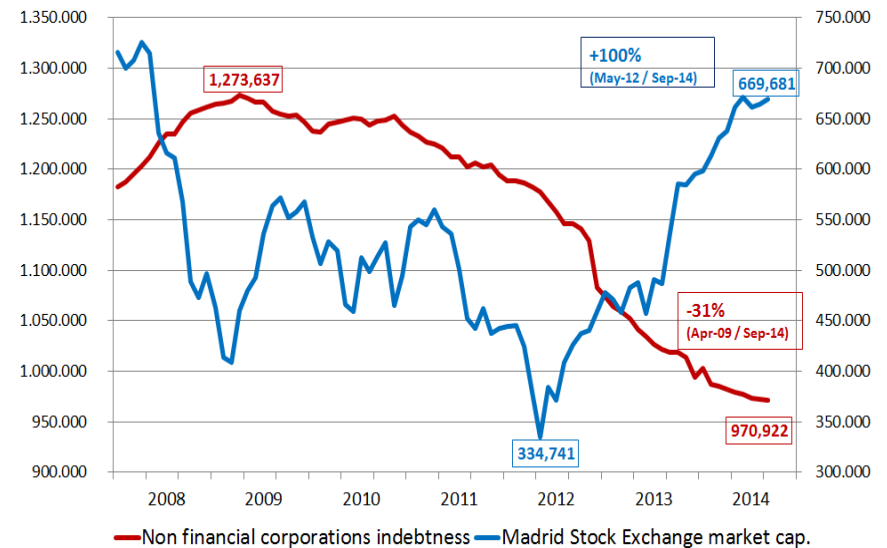
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# Private Sector Deleveraging and Improving Capitalization

Savings and Investment of Non-Financial firms (as % GDP)



Non Financial Corporations (million €)



Non financial corporations (M€)	Jan-12	Sep-14	Dif. M€	Dif. %
Indebtbness (Stock)	1,188,344	970,922	-217,422	-18.3
Madrid Stock Exchange market cap.	444,107	669,681	225,574	50.8

Source: INE

Source: Banco de España

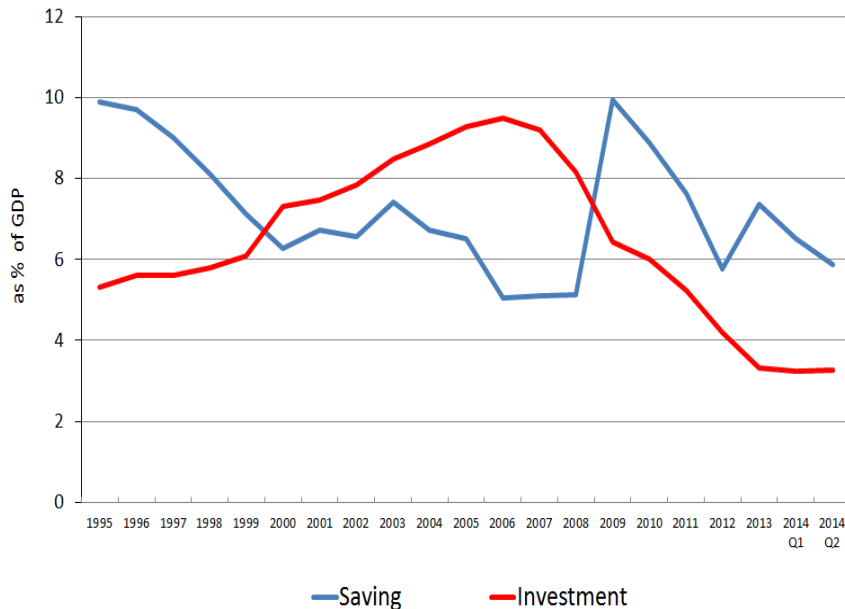


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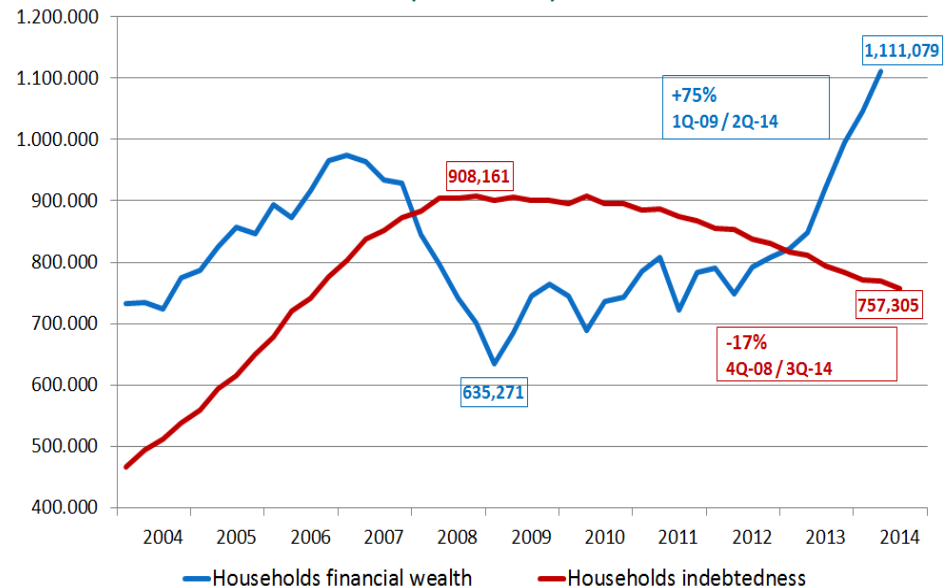
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# Private Sector Deleverage and Improving Financial Wealth

### Savings and Investment of Households (as % of GDP)



### Household Deleverage and Financial Wealth (million €)



Households (M €)	Q1 2012	Q3 2014	Dif. M€	Dif. %
Indebtedness	855,991	757,305	-98,685	-11.5
	Q1 2012	Q2 2014	Dif. M€	Dif. %
Financial wealth	789,886	1,111,079	321,194	40.7

Source: INE.

Source: Banco de España

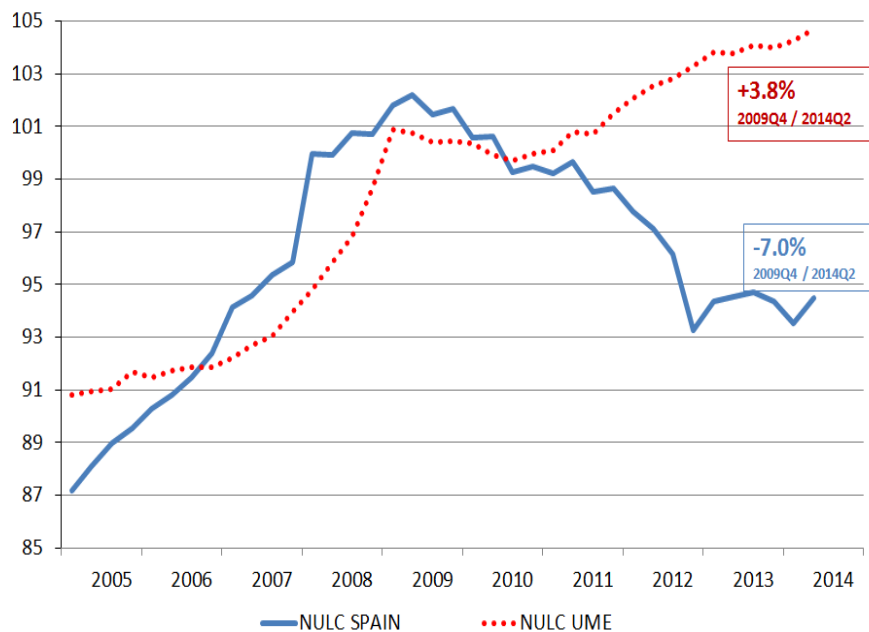


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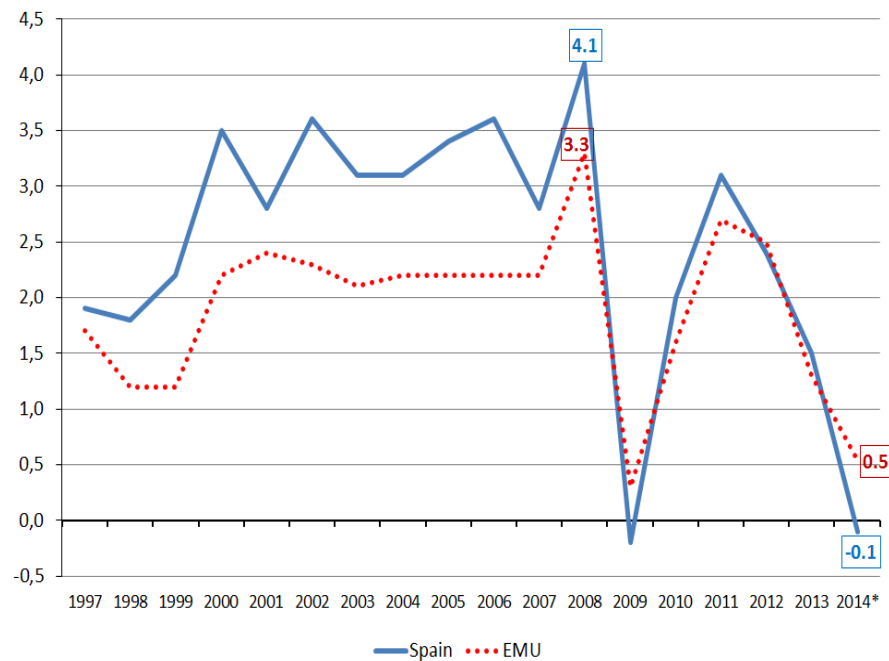
# Price stability and competitiveness

### Unit Labour Cost (Base year 100=2010)



Source: OECD

### Harmonised Consumer Price Index (y-o-y %)



Source: Eurostat

(\*) 2014 average period over same 2013 average period.

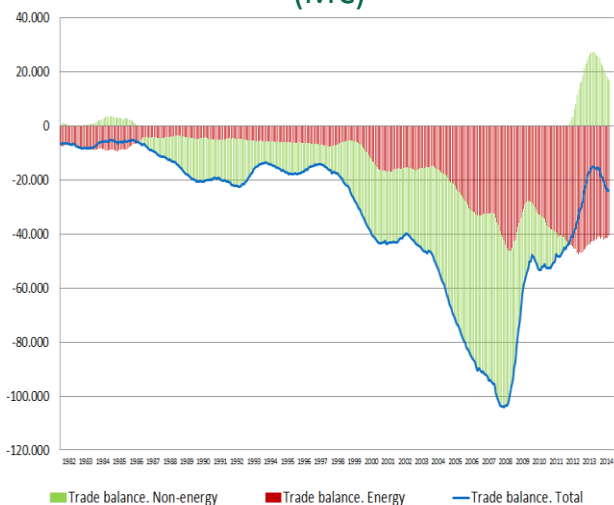


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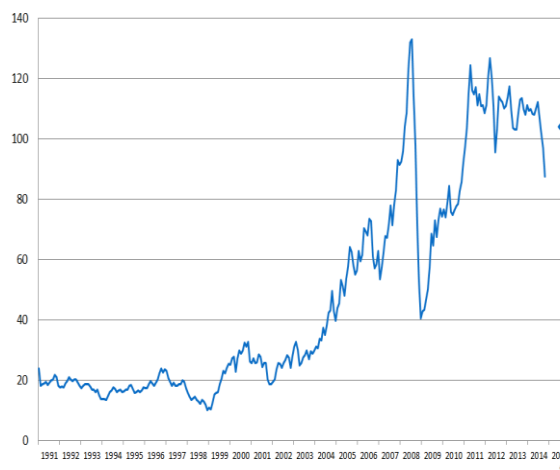
# Trade balance, crude oil and exchange rate

Energy and non-energy trade balance (M€)



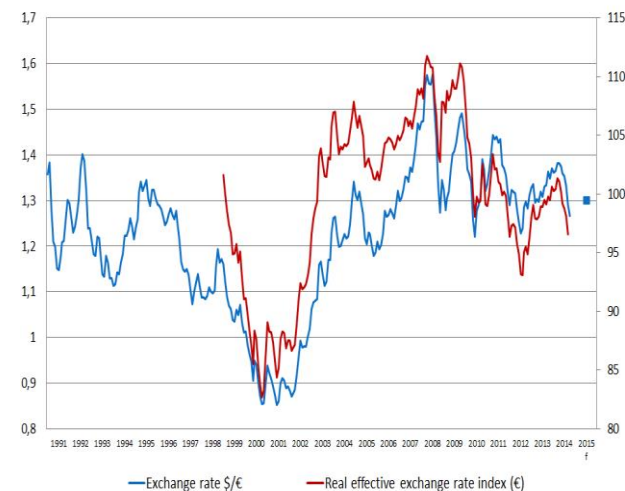
Trade balance (M€)	2011	2012	2013	2014 Jan-Sep
Total	-46,338	-30,757	-15,955	-18,855
Non-energy	-5,179	15,790	25,965	12,103
Energy	-41,159	-46,547	-41,920	-30,958

Crude oil Brent North sea (\$)



	2011	2012	2013	2014 Jan-Oct	2015f
Crude oil Brent \$ per barrel	112.2	112.4	109.7	105.1	104.1

Exchange rate (\$/€), and real effective exchange rate € (index)



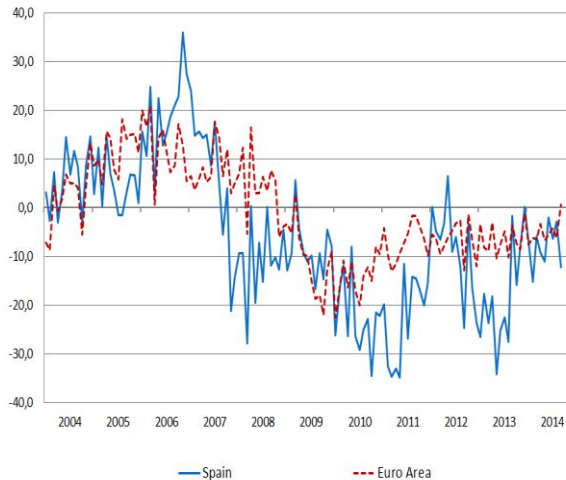
	2011	2012	2013	2014 Jan-Oct	2015f
Exchange rate \$/€	1.3917	1.2856	1.3281	1.3466	1.3000
Real effective exchange rate €	100.7	95.6	98.9	99.5 Jan-Sep	-

Source: Aduanas, Banco de España and European Central Bank.

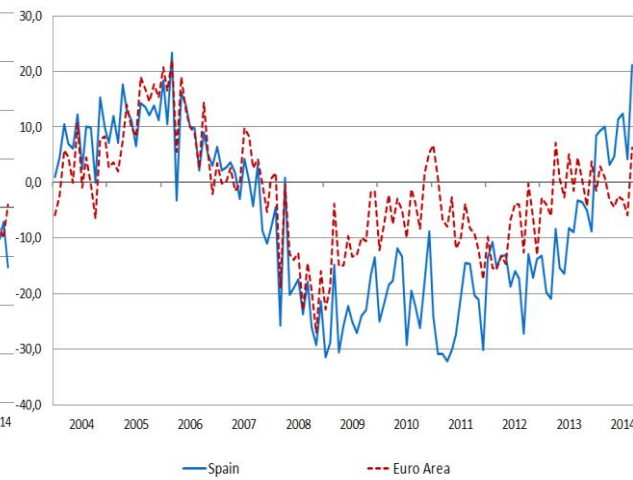


# New loans and long term government bond yield

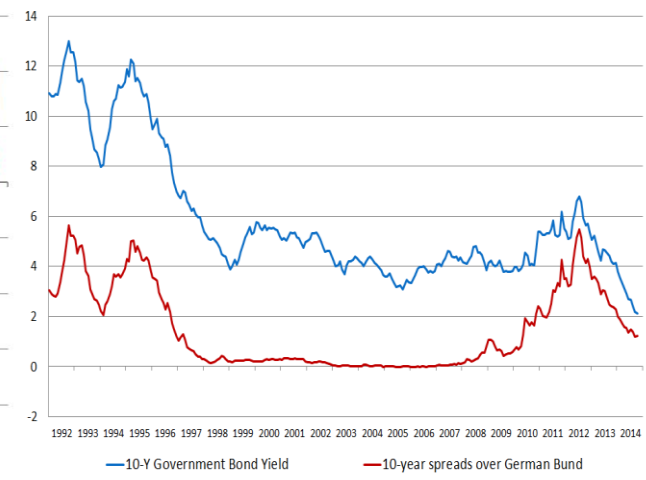
**Loans. New business. Total**  
(y-o-y % change)



**Loans. New business. Households and non financial corporations up to 1M€.**  
(y-o-y % change)



**10-Y Government bond yield**  
(monthly average %)



Loans. New Business. Total (y-o-y %)	2011	2012	2013	2014 Jan-Sep
Spain	-23.7	-8.9	-19.0	-7.9
Euro area	-7.2	-6.7	-6.4	-5.1

Loans. New Business. Households and non financial corp. up to 1M€ (y-o-y %)	2011	2012	2013	2014 (Jan-Sep)
Spain	-25.6	-15.7	-11.3	9.4
Euro area	-7.4	-9.8	0.1	-1.2

	2011	2012	2013	2014 (Jan-Oct)
10-Y Government bond yield	5.4368	5.8465	4.5618	2.8804
10-Y spread over German bond(pp)	2.778	4.279	2.932	1.537

Source: Banco de España.



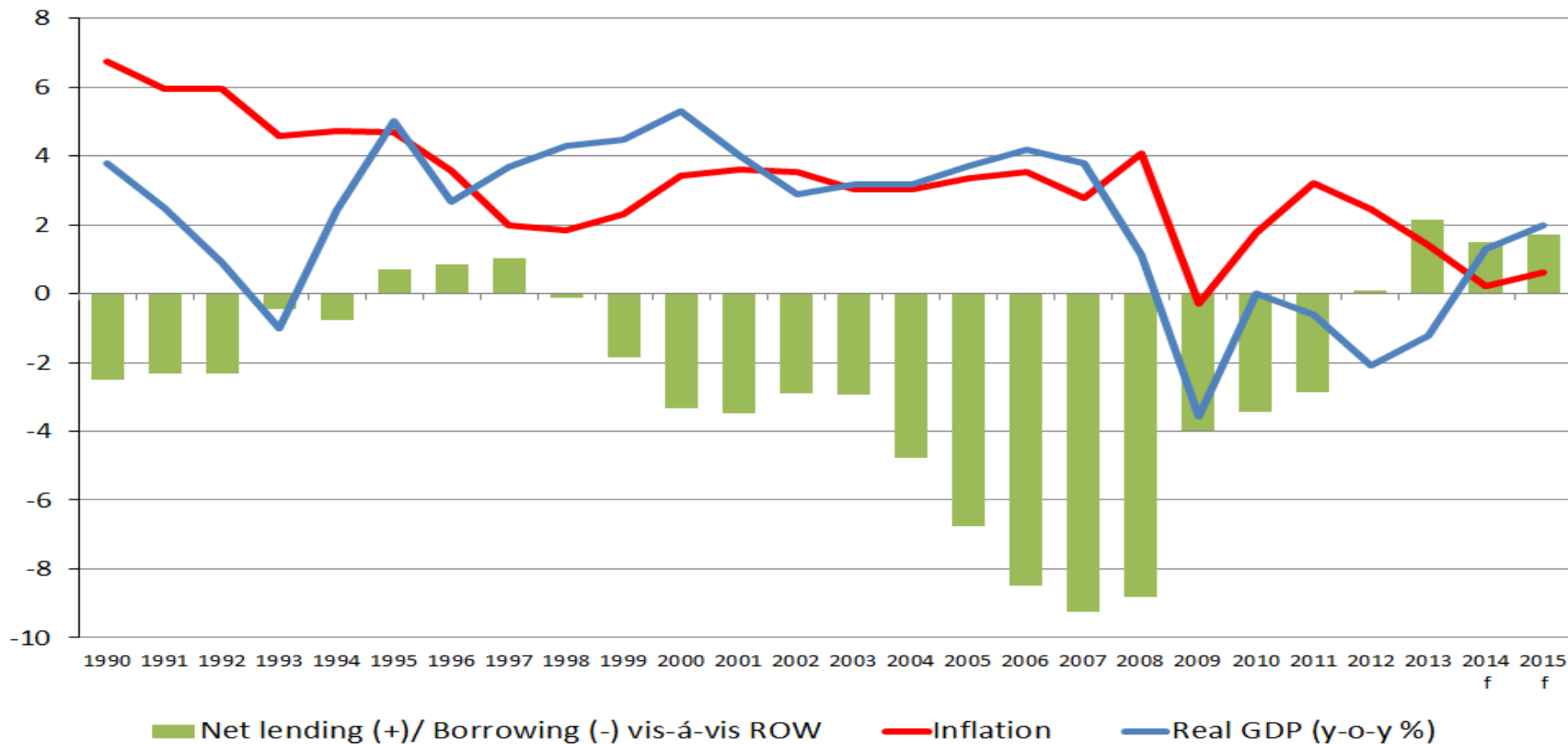


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## Correction of imbalances in a stable macroeconomic framework

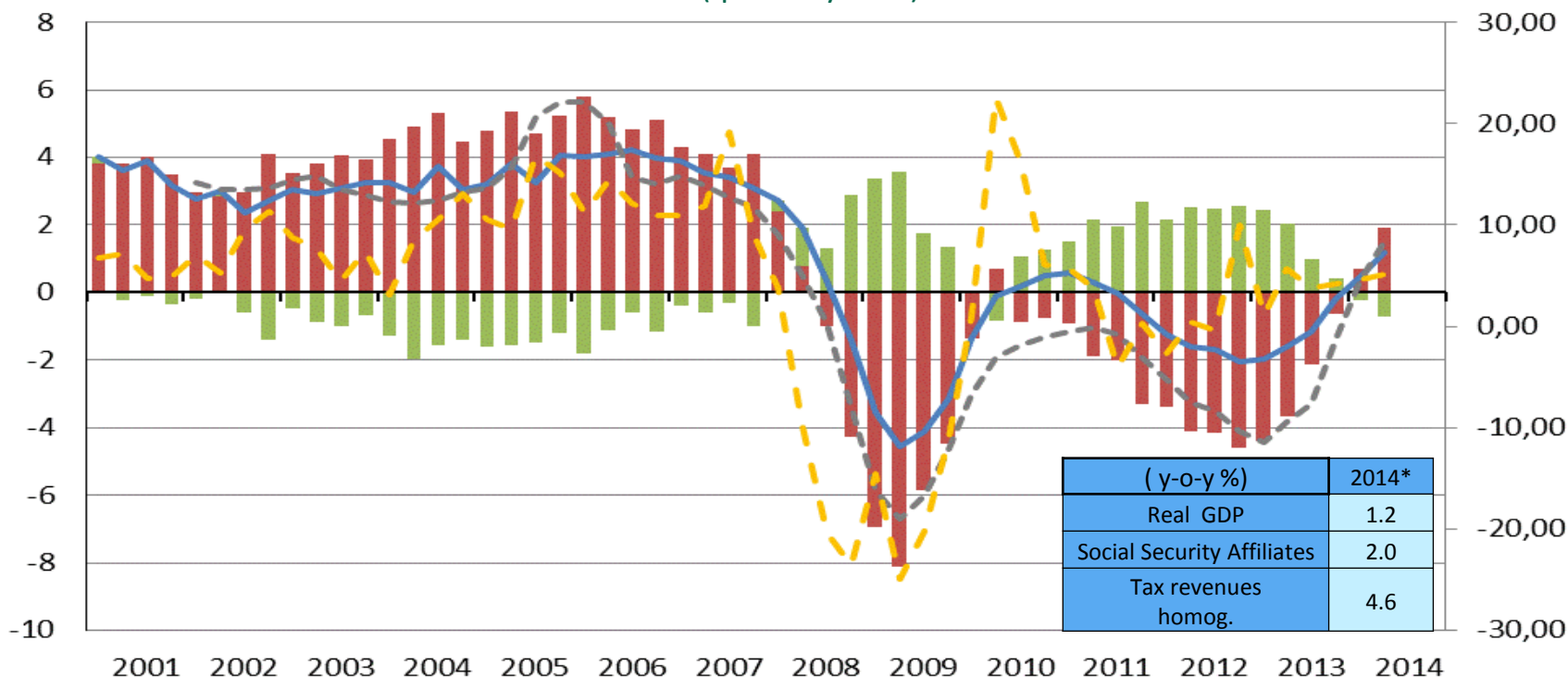
Net lending (+) or borrowing (-) vis-à-vis ROW, inflation % and real GDP annual % change





# Contribution to GDP Growth

Domestic demand, external demand contributions and annual % change in affiliates to Social Security, tax revenues and real GDP  
(quarterly data)



External Demand contribution

Real GDP (y-o-y % change)

Tax Revenues (homogeneous, y-o-y % change) right axis

National Demand contribution

Affiliate to Social Security (y-o-y % change)

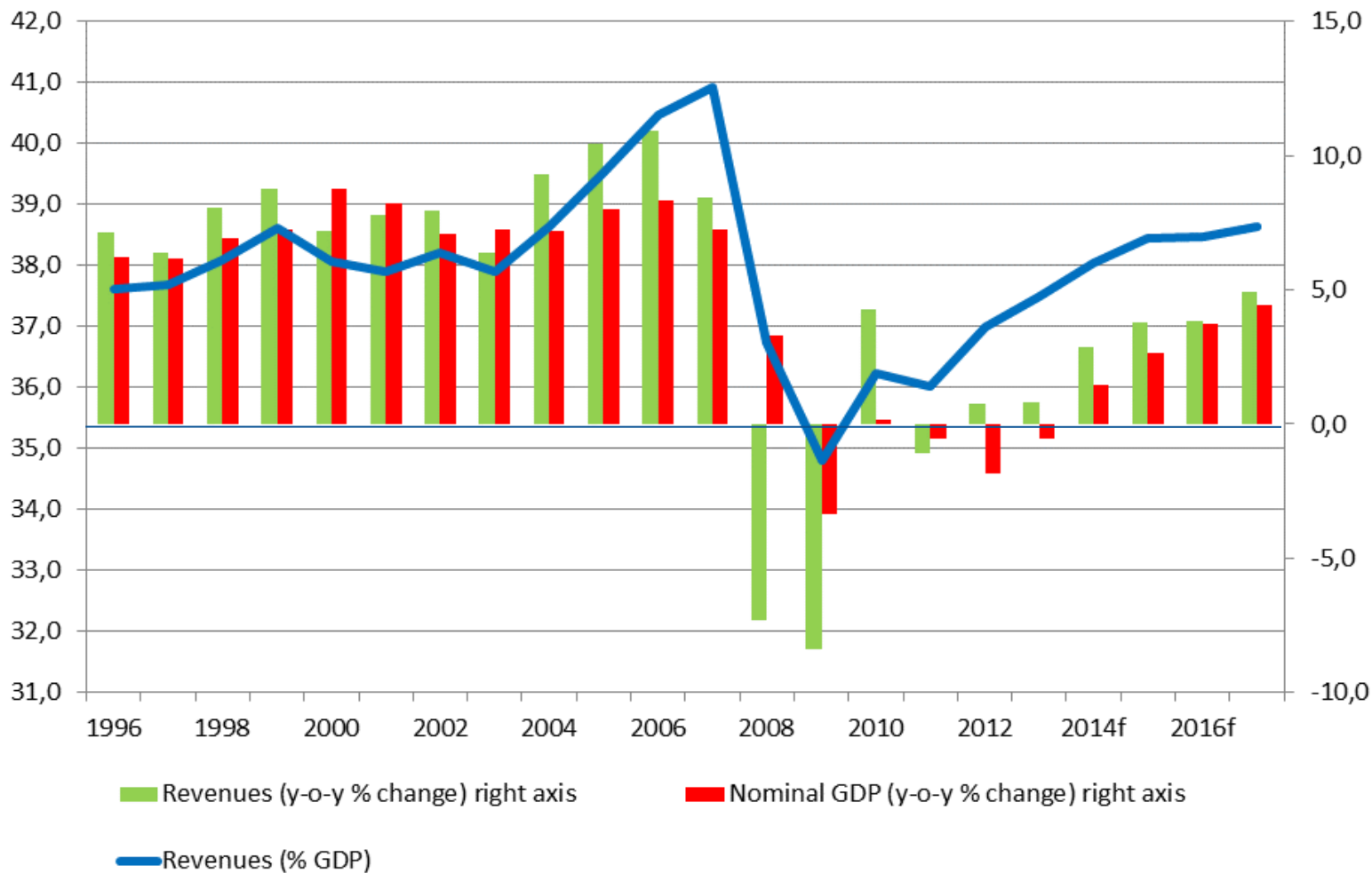
\* GDP 2Q, affiliates October, Tax revenues homog. to september



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# Revenue National Accounts





## Revenues

billion €

	2014		Budget 2015 (3)	% change	
	Budget (1)	Collection (2)		(3)/(1)	(3)/(2)
	<b>1. TAX REVENUE</b> (before transfers to Territorial Entities)	179.749	176.627	186.112	3.5
PERSONAL INCOME TAX	73.196	73.415	72.957	-0.3	-0.6
CORPORATE INCOME TAX	22.327	19.589	23.577	5.6	20.4
VAT	54.849	56.216	60.260	9.9	7.2
EXCISE TAXES	20.453	19.057	19.894	-2.7	4.4
OTHER	8.924	8.350	9.423	5.6	12.9
<b>2. TAX REVENUE</b> (after transfers to Territorial Entities)	107.413	104.769	113.836	6.0	8.7
<b>3. NON-TAX REVENUES</b>	20.747	25.034	19.876	-4.2	-20.6
<b>4. TOTAL NON FINANCIAL REVENUE (2+3)</b> (after transfers to Territorial Entities)	128.159	129.803	133.712	4.3	3.0



## Evolution of Tax revenues

### Total Tax revenues

billion €

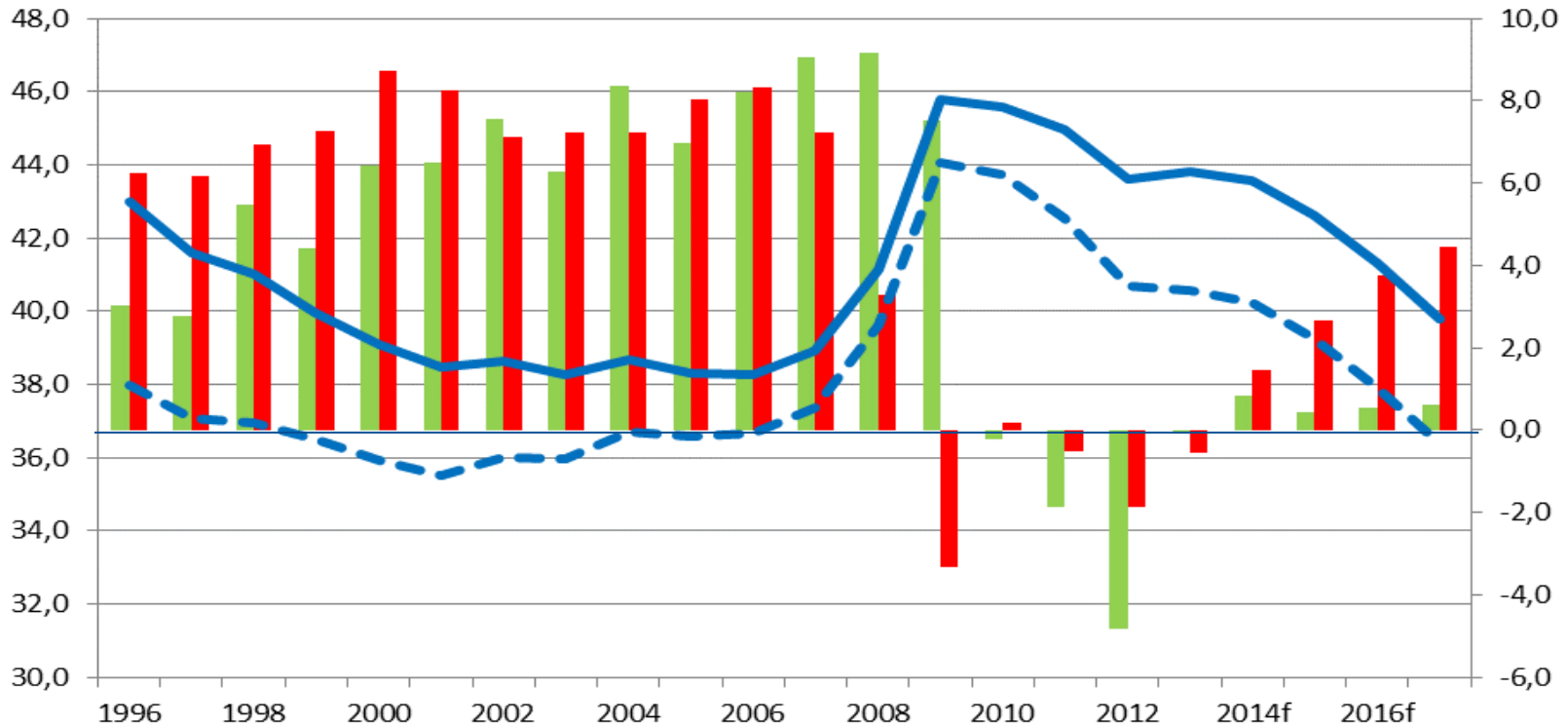
	2011	2012	Difference 12-11	% Δ 12/11	Final 2013	Difference 13-12	% Δ 13/12
PERSONAL INCOME TAX	69.803	70.619	0.816	1.2%	69.951	-0.668	-0.9%
CORPORATE INCOME TAX	16.611	21.435	4.824	29.0%	19.945	-1.490	-7.0%
<i>Payments on account</i>							
<i>Big corporations and groups</i>	7.626	11.636		52.6%	14,692		26.3%
<i>SMEs</i>	1.872	1.758		-6.1%	1.485		-15.5%
<i>Other</i>	0.136	0.215			0.121		
<i>Total</i>	9.634	13.609		41.3%	16.298		19.8%
OTHER	2.158	3.027	0.869	40.3%	3.154	0.127	4.2%
<b>CHAPTER I.- DIRECT TAXES</b>	<b>88.572</b>	<b>95.081</b>	<b>6.509</b>	<b>7.3%</b>	<b>93.050</b>	<b>-2.031</b>	<b>-2.1%</b>
VAT	49.302	50.464	1.162	2.4%	51.931	1.467	2.9%
EXCISE TAXES	18.983	18.210	-0.773	-4.1%	19.073	0.863	4.7%
OTHER	2.965	2.920	-0.045	-1.5%	2.721	-0.199	-6.8%
<b>CHAPTER II.- INDIRECT TAXES</b>	<b>71.250</b>	<b>71.594</b>	<b>0.344</b>	<b>0.5%</b>	<b>73.725</b>	<b>2.131</b>	<b>3.0%</b>
<b>CHAPTER III.- OTHER TAX REVENUES</b>	<b>1.938</b>	<b>1.892</b>	<b>-0.046</b>	<b>-2.4%</b>	<b>2.072</b>	<b>0.180</b>	<b>9.5%</b>
<b>TOTAL TAX REVENUES</b>	<b>161.760</b>	<b>168.567</b>	<b>6.807</b>	<b>4.2%</b>	<b>168.847</b>	<b>0.281</b>	<b>0.2%</b>



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# Expenditure National Accounts



Expenditures (y-o-y % change) right axis

Nominal GDP (y-o-y % change) right axis

Expenditures (% GDP)

Primary Expenditures (% GDP)

Expenditure not including one-off financial assistance